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NOTES ON CURRENT LEGISLATION

MARGARET A. SCHAFFNER

Accidents. On February 25, 1908, a bill (H. R. 17979) relating to accidents on railways engaged in interstate and foreign commerce was introduced in congress.

The bill is a reënactment in substance of the law approved March 3, 1901, with new matter added which extends the scope of the reports on accidents at present required from common carriers, and also gives the interstate commerce commission authority to investigate for itself the causes of accidents resulting in serious injury to person or property. The commission is required to make public reports of such investigations, stating the cause of accident and the responsibility therefor, together with such recommendations as it deems proper. It is further provided that neither the reports of the company nor the investigations made by the commission are to be admitted as evidence or used for any purpose in any suit or action for damages.

Banking. The force of the panic of October, 1907, fell most heavily upon the banking institutions of New York State. Ten banks and trust companies, with twenty-one branches and a capital of \$4,000,000, closed their doors; only three of which were able to resume business. These institutions were all under the regulation of State laws and the supervision of the banking department of the State, hence the immediate attempt was made to determine the weak parts of the State banking laws with the view to remedial legislation at the session of 1908. Shortly after the panic, Governor Hughes asked a number of prominent New York bankers to form a committee to report their views on banking reform. Their conclusions were laid before the legislature. The superintendent of banks, whose duties during the panic brought him into close touch with the evils in banking conditions, also gave most valuable advice in his annual report. These reports together with the recommendations of the governor form a good working basis for scientific amendment of the banking laws. The reasons for bank failures in this State are summarized by the superintendent as follows: lack of proper supervisory power, too great interdependence between corporations, a

lack of association for mutual assistance, and corporate abuses. Corporate abuses took four forms according to the superintendent, namely, a general disregard of law; lack of conservatism in management; inattention to, and disregard of, the duties of directors; and improper use of corporate credit for personal advantage.

To remedy the defects in the laws which permit these evils, is the purpose of the legislation which is being enacted at Albany.

SUPERINTENDENT'S POWERS. The superintendent of banks is given power by the proposed legislation to direct the discontinuance of unsafe practices, and may either publish the facts or assume charge of the bank on the ground that it is in an unsafe condition. At present he can only call the attention of the bank to the unsafe practices and may not take charge unless it shall appear that it is unsafe for the corporation to continue business. Power is also granted to investigate a corporation asking banking privileges and to grant a certificate of authority in his discretion if the corporation appears to be sound and public convenience or advantage would be promoted thereby. This power which is exercised to a certain extent at the present time, is extended and made to apply also to branches of banks or trust companies. Likewise the power of the superintendent to take charge of banks or the business of individual bankers, which he deems unsafe, is specifically extended to cover all institutions under his supervision. He is also made the statutory receiver for all failed banking institutions. Branch banks are not to be established except on his authority and the addition of \$100,000 to the capital of the parent bank or trust company for each branch.

INTERDEPENDENCE OF CORPORATIONS. The report of the superintendent of banks attributes six of the ten bank failures to excessive interdependence of financial institutions, and moneyed corporations. The remedy proposed is a limitation upon the amount of loans which a banking institution may make to any other moneyed corporation. The limit of the amount of loans to a single interest is lowered from 40 per cent to 25 per cent, and limitations are placed upon underwritten loans to a single corporation. A time limit of one year is also placed upon underwritten loans. State banks are prohibited from loaning upon real estate mortgages more than 10 per cent to 25 per cent—varying according to locality—of their total assets. The use of second mortgages as security is prohibited.

CORPORATE ABUSES. The main corporate abuses which the proposed legislation seeks to remedy are the inattention to the business of the corporation on the part of directors or trustees, use of corporate funds for

personal advantage, and deposits of the funds of a corporation conditioned upon a loan to any officer of the corporation.

To meet these evils, regular meetings are required once a month and a copy of the transactions of the previous month must be given to each director and filed, together with the list of the directors present at the meeting, with the records of the corporation. The publicity thus furnished is expected to awaken a keener responsibility on the part of officers and to lessen the evils of "kitchen cabinet government." To meet the evils which have grown out of the practice of depositing funds with other corporations in which some of its officers are interested, it is provided that depositories must be selected by a majority vote of the directors exclusive of those who have an interest in the depository designated. Deposits made or pretended to be made with another corporation for the purpose of receiving a loan, by any officer are prohibited.

FUNCTIONS OF BANKING INSTITUTIONS. The failure of trust companies and banks during the panic, disclosed the dangers of permitting banking institutions to engage in business outside of their intended sphere without a corresponding responsibility. Trust companies do a regular bank of discount business, and banks of discount encroach upon the field of the savings bank. The intent of present legislation is to treat banking corporations according to the kind of business they do rather than the name under which they act. Proper reserves for each class of institutions, which are increased in each case, over present requirements are provided. Banks of discount in New York City must keep 25 per cent of the aggregate of deposits, trust companies 15 per cent. Outside of New York the reserve must be respectively 15 and 10 per cent.

A few minor bills are before the legislature, relating to various phases of the question, the disposition of which cannot be foretold. The main lines of banking reform above set forth are meeting with little substantial opposition. The whole reform would appear to be conceived in a spirit of fairness to all interests concerned, and is based upon careful analysis. When we recall that 20 per cent of the banking capital of the country is subject to the laws of New York, the need of careful and considerate treatment is apparent.

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Highways. "Centralization of administration" is making a distinct advance in New York, at this session of the legislature, through the